IN THE UNITED STATES DISTRICT COURT

IN AND FOR THE DISTRICT OF DELAWARE

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THE GILLETTE COMPANY,

Plaintiff,

v.

DOLLAR SHAVE CLUB, INC., DORCO COMPANY LTD., and PACE SHAVE, INC.,

Defendants.

: CIVIL ACTION

: NO. 15-1158-LPS

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Wilmington, Delaware
Tuesday, September 19, 2017
Oral Argument Hearing

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BEFORE: HONORABLE LEONARD P. STARK, Chief Judge

APPEARANCES:

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MORRIS NICHOLS ARSHT & TUNNELL, LLP
BY: RODGER D. SMITH, II, ESQ.

and

GOODWIN PROCTER, LLP
BY: MARK J. ABATE, ESQ.,
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and

GOODWIN PROCTER, LLP
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APPEARANCES: (Continued)

SHAW KELLER, LLP
BY: DAVID M. FRY, ESQ.

and

QUINN EMANUEL URQUHART & SULLIVAN, LLP
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Counsel for Dollar Shave Club, Inc., Dorco Company Ltd., and Pace Shave, Inc.

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P R O C E E D I N G S

(REPORTER'S NOTE: The following oral argument hearing was held in open court, beginning at 3:03 p.m.)

THE COURT: Good afternoon.

(The attorneys respond, "Good afternoon, Your Honor.")

THE COURT: I'll have you put your appearances on the record for us, please.

MR. SMITH: Good afternoon, Your Honor.

THE COURT: Good afternoon.

MR. SMITH: Rodger Smith from Morris Nichols on behalf of the plaintiff Gillette. I'm joined at counsel table with my co-counsel from Goodwin Procter, William Jay,

Mark Abate, and Brian Burgess.

THE COURT: Welcome to all of you.

MR. SMITH: Thank you.

MR. FRY: Good afternoon, Your Honor.

THE COURT: Good afternoon.

MR. FRY: David Fry from Shaw & Keller on behalf of the defendants. With me today is Terry Wit from Quinn Emanuel.

THE COURT: Welcome to you as well.

MR. WIT: Good afternoon.

THE COURT: You can have a seat for a moment.

So we are here for argument on defendants DSC's motion to recognize the automatic stay pending appeal. I assume that you are all aware that we got an order earlier today from the Third Circuit that denied a motion to stay filed by DSC in the Third Circuit. I will certainly want to know what you all think are the implications of that order for the issue in front of me. And we have 30 minutes a side.

So with that, we'll turn to defendants first. I think it's best if you start there with this development a few hours ago. What impact does it have?

MR. WIT: Certainly, Your Honor. I am pleased to do so, again appearing on behalf of Dollar Shave Club, Dorco, and Pace, all three defendants today.

As the Court has indicated, there was a ruling earlier this morning out of the Third Circuit on the motion to stay. The brief background to that is that, as the Court is aware, as soon as -- after the Court's order issued on August 7th, two days later, defendants filed a notice of appeal to the Third Circuit. Defendants believe that under the *Ehleiter* case, that appeal automatically divests this court of jurisdiction, and we notified Gillette of that belief. Gillette declined to agree with that interpretation. Accordingly, there was letter correspondence with the Court about that issue.

The Court then ultimately ordered or allowed -- denied the request based on the letters, requested further briefing, allowed it on an expedited basis, which we then briefed. And the Court scheduled oral argument for today, September 19th, which is roughly six weeks after when we filed the notice of appeal, give or take.

Under those circumstances, because it was not clear to the defendants when the Court would be able to actually issue a ruling in light of how busy the Court's docket is and how busy the Court's calendar is, which we acknowledge, also which is to say we appreciate you hearing the motion even in light of those issues, there are considerable burdens on the defendants in continuing to proceed in the District Court mainly related to discovery in terms of the

number of depositions, including the apex deposition of Michael Dubin, the CEO of Dollar Shave Club, which is happening down the street as we speak, as well as numerous written discovery and other issues costing literally seven figures a month in legal fees to litigate.

In light of the fact that we do not know when there would ultimately be a ruling and the prejudice that was being entailed by the defendants in having to continue both in the District Court and in the Third Circuit, we filed an emergency motion the day after receiving the calendaring for the oral argument in the Third Circuit requesting interim stay of this action until the Third Circuit would resolve the ultimate motion to stay and hear the appeal.

As you saw this morning, the Third Circuit denied that motion solely on the basis that the Court has its hearing scheduled for today, which we're all here now for.

Our belief is that based on the order, although, of course, I can't speak for the Third circuit, it appears to me from the text of the minute order that the Court, the Third Circuit just hasn't had time to fully consider the issues on the emergency motion to stay. Today's hearing is now upon us and felt that in light of the circumstances, it might as well wait for what I assume and it may assume will be an expedited ruling by the Court following today's

hearing at some point. We acknowledge it's unusual.

THE COURT: So you had two motions for a stay in front of the Third Circuit: an emergency motion for a stay, and then an interim one. So there is still a request for a stay with them?

MR. WIT: It was briefed as a single motion, you know, one set of papers requesting a stay pending resolution of the appeal and, in the interim, requesting a stay pending resolution of that motion to stay. And it's not entirely clear to me which of those was denied. Based on the order, it could be both or it could be only the interim stay request in light of the Court's reference to this hearing today.

Certainly, we acknowledge that it is unusual obviously to proceed in both in the District Court and in the Third Circuit on a motion to stay but, candidly, we felt like we had no choice under the circumstances, and so that is what we did.

THE COURT: So in that briefing, did you make the argument to them that the stay of these proceedings was automatic and that this Court was divested of jurisdiction?

MR. WIT: We did. We made similar arguments under the *Ehleiter* case as a precedent in support of the interim stay as well as the motion to stay.

THE COURT: I haven't reviewed the briefs, I think they're under seal, but I reviewed the briefs in front

of me, and I take it they have similar arguments from what you are saying.

How can I conclude from today's order anything other than that they have looked at that argument and they have decided that I'm not divested of jurisdiction and that whatever stay maybe should be entered is not an automatic stay?

MR. WIT: Well, I think that based on the reference in the minute order to the Court's hearing on September 19th, the only way to read the order is to understand that what the Court has held is that this Court has jurisdiction to hear the pending motion, as it is doing, not necessarily that the Court has reached an issue on the merits of whether, for example, the *Ehleiter* is binding precedent, whether the *Nken* Supreme Court case overruled it or abrogated in any way or all the other issues that are before the Court today in the briefing in this court.

THE COURT: How could I, as a legal principle, have jurisdiction to hear this motion today if you are correct in your underlying argument that I was divested of jurisdiction upon the filing of your notice of appeal?

MR. WIT: Admittedly, it is a bit of a strange posture, but the motion that is presently before the Court was not a motion to stay, it was a motion to recognize that there is an automatic stay in place, and that is another

reason why we didn't move for a discretionary stay.

In addition to that, our view is that the stay is automatic. But if you look at other Courts in other Circuits that have considered this issue -- other District Courts and other Circuits that have considered the issue, it is often the case that this will come up in the context of a motion to stay in the District Court after the Notice of Appeal is filed and the Court retains its jurisdiction to hear a motion to stay in the management of its docket under that sort of procedural posture.

We were not able to locate a case within the Third Circuit that explicitly dealt with that issue in terms of how do you tee up a motion like that if the other side does not recognize that the stay is divested, but that has happened commonly as reflected in the opinions of the other Circuits that are in the majority rule of the divestment.

THE COURT: What is the status of the rest of the appeal phase? Have you done the briefing or is that motion being transferred to the Federal Circuit?

MR. WIT: So when the appeal was filed, there was a Clerk Order that was issued, an Order to Show Cause because the Clerk had noted this was a patent case, obviously, as to why this case should not be transferred to the Federal Circuit, requested briefing on the Order to Show Cause for both sides.

Both side have filed their briefing. Under the *Medtronic* case, it is clear that the Third Circuit precedent -- this was cited in our briefing as well. The Third Circuit has reached the conclusion that it has jurisdiction over FAA motions to appeal whereas the Federal Circuit has reached the opposite conclusion.

We briefed that issue. The defendants have briefed the -- not necessarily briefed the opposition of the issue. They recognize that the Third Circuit precedent is binding, but they want to reserve their decision in the event that it goes to an en banc review or to the Supreme Court, and then the Clerk's Office referred the issue of jurisdiction to the Merits Panel.

There has not been any schedule for briefing on the merits as of this time, but those preliminary jurisdictional papers have been filed as well as the typical case opening papers. There are motions to seal certain of the papers involved in the motion that was denied this morning.

THE COURT: Has anybody moved to expedite the appeal? And either way, if this case is stayed, when should I expect that appeal to be done in your guess?

MR. WIT: Neither side has moved to expedite the appeal as of this time. Our view is that because of the stay issues that are on the table, that was the proper course to take initially. If the stay is denied in this

Court -- and/or if it's denied, it's reviewed in the Third Circuit, then I would expect to move to expedite the appeal, but neither side has done so at this point.

In terms of how quickly the appeal will be resolved, you know, we're hoping for a short briefing schedule to have it done before the arbitrability trial that the Court has considered scheduling, the parties have said they're available for in January, but we -- obviously, we don't control the briefing schedule. That will be set by the Third Circuit.

THE COURT: So I do want to talk about the possibility of a discretionary stay.

MR. WIT: Sure.

THE COURT: Before we get quite to that, is it your position in that light of the Third Circuit's order today, I do have jurisdiction to consider a discretionary stay or is it still your position I don't have discretion to do that? We're going to talk about whether I would exercise that discretion, but I just want to first understand what is the defendants' position as of now as to whether I even have jurisdiction to do that?

MR. WIT: Well, our view again is that the Notice of Appeal automatically divests the Court of jurisdiction to continue with the merits of the case.

This is a strange area of the law, candidly,

because when you look at the cases, as we said, we couldn't find a case directly on point in the Third Circuit on this particular issue. These motions are often teed up in the context of a District Court motion that is made after the Notice of Appeal is filed even in the Circuits that have adopted the Majority Automatic Divestment Rule, and those motions often contain a motion for a discretionary stay.

So it seems to be, and there is law review articles, including one from the ABA that we didn't include in the papers because we thought it was additive, but to say that the practice can be to file a motion, a dual motion for a discretionary stay on top of a motion effectively to recognize the automatic stay.

In this circumstance, we did not file a motion for a discretionary stay both because we felt the automatic stay was in fact automatic and because we had previously filed a motion for a discretionary stay which was one of the motions that rejected by the Court on August 7th, so we didn't want to bombard the Court with yet more additional paper on the issue.

That said, in light of the fact that the Third Circuit has indicated that the Court should proceed today and hear the motion that is on the table, whether that means they will then consider it after it has been fully briefed or what happens next, I think the Court probably does retain

jurisdiction at least in other Circuits where District Courts have raised this issue. That is, what has been held, we just haven't seen that in the Third Circuit, and I am happy to talk about those factors.

THE COURT: Yes. Let's assume for the sake of argument, at least, that I have jurisdiction to exercise discretion. If I do that, why presumably should I stay the case?

MR. WIT: Let me shift to that now. It is at the back of my outline.

THE COURT: Well, move it up.

MR. WIT: Let me move it up.

The discretionary stay factors, they're obviously well known to the Court, so I won't belabor the point, but just do the wind up to the argument.

There is four elements:

You need a strong showing of a likely success on the merits.

You need some sort of irreparable harm or injury on the moving party; here, the defendants.

Third, you need to consider whether there is an injury to Gillette, as the plaintiff here, if the stay is entered. And then,

Fourth, you consider the public interest.

And you balance those factors. Historically,

the cases seem to indicate that the first two factors are the most important, but it is a balancing test.

As those factors weigh into it here and taking them in order:

On the first factor, showing likelihood of success on the merits, we think that the Court's own order of August 7th recognizes that. If you refer to the order at Pages 3 and 4 and Note 2, and then again on Page 10, there are indications that the Court, although not obviously not yet ruling on the issue because it found there was an issue of material fact, it indicated that it found that the ITC Tribunal opinion which held there was arbitrable issues here and that it would assert jurisdiction and the claims asserted in this litigation are encompassed by the covenants not to sue in the settlement agreement that is at issue and the arbitration clause.

The combination of fact that both the ITC has already ruled that based on a more fulsome record than was before Judge Burke or this Court, No. 1. And,

No. 2, the Court's indication that there was a -- and this is a quote -- "a likelihood that the parties contracted to resolve at least portions of their present dispute outside of the federal court."

And we think that that certainly meets of standard of showing there is at least some likelihood of success.

We're going to have a one ruling from a co-pending arbitration where we did succeed, and Gillette's similar motion was rejected or its position was rejected identical to what it is asserting here. And then we also have the Court's comments, subject, of course, to the trial, if it is held. We think that meets the first element.

As to the second element --

THE COURT: Yes. Before you move on, I mean so it is an unusual posture because, well, we denied the stay request. It was to set a trial to resolve these material factual disputes.

In assessing the likelihood of success on appeal, it seems to me, but straighten me out if I'm wrong, that if the Third Circuit, looking at it, agreed with what I said in my opinion, namely that the tribunal has a well reasoned opinion to believe that at least some of this is arbitrable, isn't it likely they would affirm me and say go ahead and have that trial and figure out if all of it should be arbitrated?

MR. WIT: Well, that is, of course, possible. I don't know whether it's likely or not, but that is of course one outcome.

THE COURT: It is your burden to show it is likely.

MR. WIT: Right.

THE COURT: When we say "success on appeal," presumably you have to do something to alter the order of this Court.

MR. WIT: Right. And so our view -- and also in some ways this gets to the notion of frivolousness; right? There was a lot of, and actually no briefing really much on the issue of frivolousness under the *Ehleiter* standard, but there are somewhat overlapping issues.

The defendants' appeal is going to present at least two substantial issues, if not more:

one is whether the Court erred in lacking -- in finding that the tribunal lacked authority to determine its own jurisdiction. And,

Secondly, even if it was proper to make that finding, whether the Court applied the wrong legal standard by giving Gillette the benefit of all reasonable doubt and inferences, basically summary judgment standard on the revocation defense, versus applying a much more stringent standard which is required by New York law that Gillette prove out its defense that there is not an agreement to arbitrate by clear and unambiguous evidence of a novation or a waiver, whichever way you want to characterize their revocation defense. And that is particularly where New York law says that any ambiguity on that issue should be resolved in the movant's favor, meaning here the defendants.

So we think that -- and we recognize obviously Your Honor disagrees with those issues or you wouldn't have issued the order that affirms Judge Burke's order, but in our view, certainly that doesn't render the appeal frivolous to the extent that that is going to be considered by the Court today, even though Gillette did not make that argument under the automatic divestiture cases.

But we think for similar reasons, that is a "thumb on the scale" in favor of meeting the likelihood of success on the appeal. These are issues that we felt like, again subject to the Court's disagreement, were clear under the New York law. We feel like we have a strong appeal or we wouldn't have taken it.

THE COURT: Okay. You can move on.

MR. WIT: On the second element, which is the irreparable injury, as I indicated before, defendants in their view have a clear-cut arbitration agreement from 2008. There was no fraud in getting it. It covers this case. And as the ITC tribunal has found, the motions to stay were filed some 15 months ago, shortly within I think four days of when the arbitration was filed, in June of 2016.

We recognize again the Court has a very busy docket and a very busy calendar, but we have now engaged in 15 months of discovery. There is another month of fact discovery left before the close date. During that time,

there is some 10 to 12 depositions including several third parties that are coming. There are multiple outstanding written discovery requests, including each side having served on 50 to 75 requests for admission in the last few days. There are multi-interrogatories that have to be served, and there are others where one side or the other has demanded other additional responses.

There are likely to be additional document discovery issues and document production that the parties continue to argue about. Off the top of my head, I think there are six or eight pending discovery requests, four of which I think were already teed up in a letter to the Court, which the Court held in abeyance until after this particular hearing, and that is all just in the next month in fact discovery in locations around the country as well as potentially Korea.

At the same time, obviously, the parties are winding up their expert discovery. They're retaining experts. They're working through that. The expert discovery deadlines follow upon that.

So in addition to the parties' fact discovery as well as the court having to adjudicate what are likely to be many different disputes as things wind down, we have the expert discovery as well as we have invalidity, final invalidity contentions coming up as well as the rest of the

case after that.

And as I indicated before, every month that goes by, the defendants are incurring over a million dollars in legal expenses as this continues in derogation of their arbitration rights. So we find that harm to be significant, and we think that it is irreparable, particularly in FAA context where the entire purpose of the bargain was to avoid being in the federal court in the first place.

THE COURT: So the financial harm, of course, could be repaired by Court order but the loss of the arbitration or ability to have your dispute resolved in arbitration presumably is irrevocable?

MR. WIT: Certainly, and I focus on the finances because they're easy to quantify, but there is much distraction obviously to the clients that are involved here, including Mr. Dubin's deposition today as the CEO, the highest ranking official in Gillette/Proctor & Gamble, scheduled to be deposed on December 6th. There is a pending to quash a subpoena they served on me personally in San Francisco, so there is another federal court involved as well.

So there are distractions to the parties in addition to the cost. They have to collect these documents that have to be prepared, et cetera. Also, it's not just the loss of the rights to proceed in the arbitration. Everything that is produced in this case, whether it is fact

discovery or expert discovery, either will or can and, in some instances, already has lead to an argument that it should be used in the ITC arbitration, which, of course, has very different rules than the federal courts do. And there are numerous cases we cited in the briefs, including the *Ehleiter* case as well as the *Bradford-Scott* case in the Seventh Circuit, and the *Levin* case in the Fourth Circuit that talk about this is the very reason why we have an automatic stay in those jurisdictions that have adopted it is because of the collateral effects that happen when you have to -- when you are forced to engage in litigation and then those materials are then used in the arbitration or sought to be used -- the language in at least one of the cases is the classic it's "a bell that can't be unrung" and that is a very real prejudice, particularly where the parties have already talked about we have evidentiary briefing coming up in the ITC on October 6th where our statement of claim is due, and there will be probably materials produced in this litigation and thereby further briefing, as they submit a statement of defense in November, and we reply.

As to the third factor, the injury to Gillette.

The main injury that Gillette highlights in its briefing is that it has lost customers to Dollar Shave and the defendants because it alleges those customers somehow

knew about the better or different coatings that allegedly the defendants used. Of course, we take issue. In fact, we don't use the coatings are covered by the patent.

But the central argument is they lost customers, it will be hard to get them back, that they lost money as a result of sales to those customers. That is really the thrust of their position in terms of the harm to Gillette if a stay is entered.

Your Honor, our response to that is, first off, it's far from clear that any loss of sales that has happened in this case happened because of a change in blade coatings of any kind or that someone shaving with these products would even notice the difference -- that certainly hasn't been proven by Gillette -- as opposed to perhaps the reason that they have lost market share is because of the inconvenience of having to go to the store to buy razors as well their high prices.

Dollar Shave pioneered a new model that is out in the media that is not a controversial proposition. Gillette has tried to respond to that by founding its own online shave club and doing other things. None of those issues in the market or lost customers have anything to do with the blade coating that might be proven in this case.

Secondly, if Gillette found it was facing irreparable harm in this case as opposed to harm that could

be rectified by damages if the case resumes after a stay, it would have moved for a preliminary injunction. It has not done so. It has not shied away from using every possible procedural mechanism to keep this case going and to bring the defendants into it.

We respectfully submit its failure to move for a preliminary injunction is indicative of the lack of inequitable injury that it has suffered and can't be remedied.

With respect to No. 4, the public interest.

Both the Supreme Court and Congress have made clear there is a strong public interest in favor of arbitration or there is an agreement in place. That has been cited numerous times in the *Moses H. Cone* case as well as numerous cases that have been cited in the brief as well as the *Ehleiter* case and all the majority automatic divestment cases.

The notion that a party can be forced to litigate not just for 15 months or almost two years now while a pending request for arbitration or arbitration is continuing, there has been a request for a stay, but also to be forced to go forward with the trial on an arbitrability issue when there is a pending appeal in front of the Third Circuit on that issue as well as a co-pending arbitration, these are exactly the classic type of worst case scenario

which is a quote from the *Ehleiter* opinion, referring back to the *Branford-Scott*, also *Levin* deals with this issue. It is the classic case where somebody bargained for, in a contract, a right to arbitrate and has lost the value of that right. If this case is litigated to the end on the merits, any victory that we may have in the ITC or in the Third Circuit will be hollow at best, if not pyrrhic.

So the public interest counsels for the defense of arbitration agreements. That is the whole reason why the FAA was passed in the first place. Although Gillette may argue that the issue here is that there is some public interest that they shouldn't be forced in an agreement to arbitrate if they don't think that they agreed to arbitrate, and that is the crux of the appeal, the fact is that if you look at the Circuit opinions on these issues, the issue of arbitrability is designed to be resolved quickly on an interlocutory appeal in order to further the purposes of the FAA, which as well as the presumption that we have discussed before in the briefing under the FAA that the claims should be assumed to be arbitrable if a contract is established or else furthered by the immediate appeal, which is why we have Section 16 rights defining immediate stay.

THE COURT: One of the concerns Gillette raises is maybe this isn't the only interrogatory appeal we'll have in this case.

MR. WIT: Yes.

THE COURT: Can you given any reassurance, that I suppose in this scenario that let's say we have the trial and we find that the case is not arbitrable, that you could then file yet another interlocutory appeal?

MR. WIT: So that is an argument that they raised is what they characterize as abuse. That that somehow would be an abuse of the process or of the defendants' appellate rights under the FAA.

That is wrong for at least four different reasons that I have mapped out here.

The first is, again, that the Court has recognized there is at least some likelihood that we may succeed at the trial as a result of the parties having briefed it. Some of the disputes before the Court are arbitrable as well as the ITC having concluded those disputes are arbitrable, which there won't be a need for a second appeal if the facts prevail at trial.

Secondly, even if the defendants don't prevail and then they decide to appeal at that point, the fact that there is an availability of two appeals to the defendants is not a situation of our making. It's part of the structure of the FAA in Section 16.

Section 16 makes very clear that any order denying an appeal -- I'm sorry, any order denying a Section

3 mandatory stay is subject to an appeal. Clearly, the Court's August 7th motion denied the motion to stay. It did not ultimately resolve the issue of arbitrability but that is not what the statute requires.

We are simply pursuing our statutory right to appeal both because the ITC has reached the opposite conclusion and because the Third Circuit may well, even if it decides that this Court should decide arbitrability, even if we somehow lose that appeal, it is entirely plausible that the Third Circuit is going to remand with instructions on the scope of what should be decided at the trial. That is why the reason we filed the appeal now, so we don't have to go through trial blind without knowing what the Third Circuit thinks about these issues and then have to repeat the trial if it turns out the scope of the trial was not correct for some reason.

The third reason that the notion of a second trial is a red herring is that Gillette's own authority has held that simply because there might be two interrogatory appeals on the same issue at two different times in the case is not a reason to prohibit either one of the appeals and then explicitly held that was true even if the issue of arbitrability wasn't yet decided when the first appeal was decided.

If you look at the *Microchip Technology v U.S.*

Phillips **in the Federal Circuit, they explicitly looked at that issue where there was an initial appeal under the FAA, arbitrability has not yet been decided, and it decided that that that was not a reason not to allow the first appeal even if there was going to be a second appeal.**

Additionally, the Supreme Court case in *Behrens v Pelletier*, which is cited by Gillette in its briefing, made the same point, not in the FAA context but it was serial interlocutory appeals in the qualified immunity context, which is similar to that. In that case, it was the first in a motion to dismiss stage on the issue did they have a right not to have a trial. The second one came after summary judgment. Again, no problem with both of the appeals happening. That was just a function the law.

Finally, I would note that the notion that the possibility of there being a second appeal means either that the first appeal is not legitimate or there should not be a stay in place is not consistent with the structure of the FAA itself.

If you look at Section 16(a)(1)(A), which is the section we're here about today, which is the one that says that any rejection of a motion to stay is immediately appealable. That covers interrogatory orders. It covers nonfinal orders on is face.

If you look at Section 16(a)(3), which is later

in the statute, that is a separate appeal right for a final order. That would be an appeal right that would kick in, for example, after there was an order at trial on arbitrability. So it can't be the case that the fact that the fact there might be a right to a second appeal under the FAA is a reason to deny or not have the first appeal or to deny a stay.

And the Third Circuit noted that dichotomy in a case called *Sandvik v Advent International*. It was not cited in our brief but it was cited in Gillette's *Microchip Technology* brief as a reason for why it is not prohibitive to have to appeal.

THE COURT: Let me ask you just a couple other questions, then we'll give you extra time for rebuttal, but I may have sensed that another concern than Gillette may have is if the arbitration proceeds more quickly than this litigation, which, of course, would be more likely if we stay, that perhaps there they will be deprived ultimately of their litigation right even if the Courts were to decide that there should be litigation. Is that a possibility? I mean would something happen to litigation just by virtue of the fact that the arbitration itself may become completed?

MR. WIT: Well, I mean the first point I would make is that the parties in the agreement agree to an arbitration that should happen within 60 days. So they had

always contemplated that arbitration would happen quickly, and that was the purpose of having arbitration as a gating mechanism before federal litigation was brought. That is the entire crux of the arbitration not to sue argument and the arbitration clause, 10(c)(1), 10(c)(2). So in some ways, even if that "parade of horribles" were to happen, it's a situation of Gillette's own making.

That said, on the hypothetical that you pose, which is that the Third Circuit or somehow it is otherwise resolved that these issues ae not arbitrable and we lose, then the arbitration had continued to an end, it is scheduled for a hearing on February 26th. A week long, three to five day trial. Hopefully, a ruling soon after that.

Some time after that point, there is a ruling by the Third Circuit or some other ruling that indicates that that proceedings was somehow in error. Then the way that that issue would be teed up presumably is that if Gillette -- number one, if Gillette wins the arbitration, then there is no issue. Because that shows that that means that the products were covered, and they can proceed with this not being covered by the case and proceed with this litigation.

Number two. If Gillette loses that litigation, then what the defendants are entitled to are the damages to all the legal fees and all other expenses they have incurred

in this proceeding as well as the ITC.

They also, however, also entitled to an injunction under 10(c)(2) of the settlement agreement. That power was given to the parties by the ITC. Presumably, if the ITC enters an injunction, and there is it a conflicting ruling or even if there is not a conflicting ruling at that point, Gillette may well come to federal court and challenge whatever the ruling is that was issued by the ITC which would be resolved by this court or whichever court is hearing it at the time under standard procedures. It maintains its right to do that. Nothing about a stay impacts that.

THE COURT: All right. And then, finally, for the arbitration trial, not the trial in front of the arbitration tribunal but the arbitration trial I ordered. If this case were to go forward, you say the parties have agreed they're all available in January; and, of course, my calendar is crazy but they now say they can be ready in October or November. Is there no way, if I order a trial to happen in October or November, that your client can be ready to proceed with that?

MR. WIT: The way that -- just to be clear, the way that those discussions were described in the papers is not entirely accurate. There is back and forth between the parties. We said we were available in December. They

weren't available. They said they were available late November. We had said we weren't available on those dates. And ultimately everybody was available in January.

In any case -- and October wasn't discussed presumably because of the continuing litigation and everything that is going on here as well as what is going on in the ITC, and also because I think candidly Gillette still wants to try to take my deposition and they want to do that before the trial.

That said, look, if the Court denies the stay, and these proceedings aren't stayed, and we have to be here for a trial, we will be ready for a trial. We are a major law firm. We think in our view it is better to be organized and to do it at a time that was mutually convenient for everyone, also considering the Court's docket, and do it in January, but we will do what we're ordered to do.

THE COURT: And what is your estimate at the moment as to how long a trial would be? And is it a jury or a bench trial?

MR. WIT: Well, we think it should be a bench trial. I suspect that Gillette will take the position that it should be a jury trial.

With respect to the length of it, in some ways that depends on whether it is a bench or jury trial because obviously you have the selection of the jury, instructions,

and all these other issues that you have to deal with in a jury trial that you don't have to deal with in a bench trial.

You know, my guess off the top of my head, maybe two days, probably less than that. We might even be able to be done in one day. These issues are particularly clear, especially from our perspective, but in our experience, the tendency is when we make an estimate taking a relatively short period of time, Gillette thinks it should take longer.

THE COURT: Okay. We're several minutes over your limit, but we will give you five minutes for rebuttal.

MR. WIT: Okay. Thanks, Your Honor.

THE COURT: Thank you very much. Let me hear from Gillette.

Good afternoon.

MR. JAY: Good afternoon, Your Honor. Thank you for hearing from us. William Jay from Goodwin Procter for Gillette.

I understood from Your Honor's questioning that you would like us to begin with the point about the Third Circuit.

THE COURT: I think that would be most helpful, yes.

MR. JAY: Certainly. What the we take from that is simply that the Third Circuit wants to hear from this

Court. That we had urged in our opposition that this Court has scheduled a hearing, and that the ordinary procedure for a stay motion on appeal was to hear from the District Court first, in particular, on a complicated issue where the Circuits are split. And what we take from this is simply that there is time for this Court to do that before the Third Circuit rules.

THE COURT: So do you think it has any implication, though, for the underlying dispute that was in the motion in front of me particularly whether I have already been automatically divested of jurisdiction?

MR. JAY: Well, I do agree with Mr. Wit that at a minimum, this Court has jurisdiction to hear the pending motion. And that the Court, the Third Circuit I think would not have waited to hear from Your Honor if it thought that this Court had no authority even to grant the stay that the other side had recognized.

We don't read into that a definitive view on the merits of the stay question. I think that would probably be overreading the order that the Third Circuit has issued, although we do think that what the effect of that order was was to deny both the request for an interim stay and the request for a stay. So at the moment, we don't think there is anything pending in the Third Circuit.

THE COURT: No request for a stay.

MR. JAY: Correct. The appeal certainly remains pending. And as Mr. Wit said, no briefing schedule has been set.

THE COURT: Do you therefore think, is the question of this *Ehleiter* case, or however we're going to pronounce it, and whether or not there is an automatic stay in these situations, is that an issue that is still before the Third Circuit with the underlying appeal or is that issue not even before them now?

MR. JAY: I believe that because they have denied for the time being the motion for a stay that the only thing before the Third Circuit right now is the appeal, the appeal itself, the Section 3 appeal from this Court's order. And Eh-light-er (phonetic) or El-Tee-a (phonetic), we can each pick our own pronunciation, that I think is collateral to that. It does not, it's probably not going to be litigated in the briefing on the merits of the stay appeal that the defendants want to pursue. I think it only has to do with the question of what may happen in this court while that appeal was pending.

THE COURT: All right. And I take it, it is correct that you already said no briefing schedule is in place and nobody has asked for an expedited appeal; correct?

MR. JAY: No one has yet asked for that. And presumably after a ruling on a stay, the parties might

revisit that, and the Third Circuit's rules allow for a motion to expedite to be filed after the basis to expedite it arises.

THE COURT: Okay.

MR. JAY: If it would be helpful to the Court, I can certainly talk about whether a discretionary stay should be granted. Obviously, I would like to address whether the stay is automatic.

THE COURT: Yes, you can do both, but why don't you start with the discretionary stay, and you can argue that I shouldn't have reached that issue, but I'm having a hard time seeing how long I shouldn't reach that issue, but go ahead.

MR. JAY: Sure. Well, we certainly think this Court has jurisdiction over this case, and that this Court had jurisdiction over the numerous previous requests for discretionary stay that the defendants had filed. And that if defendants had wanted to make such a request in their papers, this Court could have considered it. And we indeed briefed the stay factors in our opposition to the motion, and the defendants didn't engage with that.

I agree with the factors that Mr. Wit outlined, although, of course, not how he would apply them to the facts of this case, that when the question is not just the management of a docket but a stay pending appeal, in other

words, things should stop because an appeal is pending, that really the first factor is a likelihood of success in that appeal so that matters don't come to a halt unnecessarily in the District Court based on an appeal that is not likely to change the outcome.

And in assessing the likelihood of success on appeal, it is important not to conflate the question whether the defendants might ultimately prevail on the question of arbitrability, which is something that this Court has set for the trial on arbitrability but whether they are likely to succeed on the appeal that they have noticed, which is basically an argument that despite this Court's finding a genuine issue of material fact on this point, they are nonetheless entitled to a stay.

We think that for the reasons that we briefed that they are not likely to prevail simply because this Court, grounding its decision in the appropriate Circuit and the New York precedent, has concluded there is a genuine issue of material fact. A fact-finder could conclude that the dispute or a portion of it is not arbitrable under the appropriate standard of proof, and the matter therefore should be set for a trial as soon as possible. We think the Third Circuit is likely to agree with that.

THE COURT: So the statement -- well, the fact that the arbitration panel has said these disputes are

arbitrable, and that we said that was essentially a well reasoned opinion and maybe we will come out that way after a trial, are those irrelevant to the analysis on this first factor of a discretionary stay?

MR. JAY: I think they are for exactly the reason Your Honor just gave. That however they might bear on what the Court might decide after a trial is not the question. The question is whether there is a likelihood of success on appeal, because after all, the consequence of an affirmance would be that the Court goes ahead with the trial exactly as it has planned and it could take that into account as it deems appropriate. So we don't think that has anything to do with the likelihood of success on appeal on what my friends on the other side have referred to as the threshold legal issues that they want to raise in that appeal.

Then, secondarily, there is the question of irreparable injury which is the other side's burden as the movant to show. What my friends have focused on is the litigation expense, and it's crystal clear from the Supreme Court precedent and Circuit precedent that litigation expense ordinarily is not irreparable injury warranting an appeal. We have cited I think to the Third Circuit on this point, the Supreme Court's decision on *Renegotiation Board*, which is 415 U.S. 1, saying that ordinarily litigation expense is not irreparable injury.

We think that is equally true in the arbitration context particularly because, as the Court knows, the Court has not enjoined the arbitration. The Court has determined that the litigation and the arbitration are to move forward for the time being on parallel tracks.

THE COURT: And what about this worst of all possibilities world that the cases contemplate? Arguably, the defendants are suffering from doing all of this fact and soon expert discovery, potentially getting to a trial on the merits here in federal court, but also an interim separate trial on arbitrability when arguably from their perspective they bargained to not have to deal with any of that.

MR. JAY: This is sort of getting back to the merits of whether the stay is automatic or whether the other side has to demonstrate entitlement to it, but I think it is responsive to Your Honor's question.

Section 3 of the FAA basically answers that question. Congress could have created a structure that allowed defendants or parties who want to rely on the arbitration clause, the moment they seek to stay a litigation pending arbitration, to obtain an automatic stay until the arbitrability question is worked out.

That is not the statute that Congress enacted. Instead, Congress in Section 3 said that a stay is required once the Court is satisfied that the dispute is referable to

arbitration, and so you don't get a stay simply by seeking a stay. You have to demonstrate entitlement to it by showing that the dispute is referable to arbitration.

We think it does not make any sense and nothing in the FAA supports the idea that once you failed to convince the fact-finder that you are entitled to such a stay that you can get one anyway for the duration of an appeal simply by noticing an appeal to the Third Circuit.

So on the question of whether the alleged injury is somehow extra biting in an arbitration case and we think that the possibility of litigation will go forward until entitlement to arbitrate is demonstrated, that is simply baked into the FAA is how it is intended to work. And in a case like this one in which the Court has been proceeding to diligently move the case forward, because of the possibility that the Court will find some or all of it should proceed in this court rather than in arbitration, it will be severely prejudicial to Gillette to lose the trial date that this Court has set. To be clear, the trial date on the merits of the action rather than the minitrial on arbitrability.

Mr. Wit suggested that it is Gillette's burden to demonstrate irreparable injury in this stay calculus, but really in a four factor test, it's a question of the balance of equities and the movant must demonstrate irreparable injury. But once they have done that, then the question is

how to balance the equities and how to assess the public interest.

And in this case, Gillette, a stay pending this appeal, especially an appeal that is not likely to succeed, and that might be followed by another appeal and another stay following the minitrial on arbitrability, would cost Gillette the trial date that this Court has set, and that would be significantly prejudicial to Gillette in its enforcement of its intellectual property rights.

THE COURT: The briefing does talk about other types of harm to your client that is seen in the nature of what one might expect in a preliminary injunction brief. Should I be considering the market share and the price erosion argument? And, if so, how do I factor in that you didn't seek a preliminary injunction?

MR. JAY: So on a preliminary injunction, our burden would be different. The Court is fairly familiar with this. Our burden would be to show that during the course of the litigation, before the Court could resolve the ligation on the merits, that Gillette would suffer irreparable injury, and it would be Gillette's burden to show that, including a likelihood of success on, for example, infringement. And Gillette made the decision not to seek a preliminary injunction but to proceed with litigating this dispute expeditiously to get to a final

judgment in good order.

In the stay calculus, the burdens are reversed and they're different, so that the burden is on the other side, and the balance of the equities includes harm to Gillette separate and apart from irreparable injury.

So I think the prospect of a lengthy delay and its affect on Gillette and its enforcement of its intellectual property rights changes the calculus. In particular, if Gillette made a calculus based on how long the litigation was going to take and did not seek a PI on that basis, then the litigation is extended out by, it could be a year, maybe two years if there are two appeals. That changes the calculus as well if we don't get to final judgment until after two trips to the Third Circuit and the case comes back to this Court finally to set a trial date on the merits.

THE COURT: Is the outline I heard from your friend about the interplay between the arbitration and the federal litigation correct? That is, even if the arbitration gets out way ahead of the litigation and you are unhappy with the result there, you still would have some right to proceed, at least to challenge that arbitrability issue in federal court?

MR. JAY: That much is correct. That we certainly would challenge any such ruling, but I think that my friend, if anything, may have understated the complexity

that would result in that situation, including fights about which court has jurisdiction, and which prior rulings of the federal courts are binding on the parties, those rendered before the arbitration, those rendered in proceedings to confirm or vacate the arbitrability award and so on.

I think that it certainly is correct that if the arbitrators made such a decision that Gillette would challenge it, but I fully expect that the other side would say they can't, for one reason or another.

THE COURT: How about his outline of the status of discovery in this case, what is left in fact discovery, and then that we're on the cusp of in about a month or so expert discovery? Is that all generally accurate?

MR. JAY: It is. There are several depositions remaining in fact discovery, and then there is a schedule set for expert discovery, and there is the pending proceedings on the motion to quash in the Northern District of California. Yes, that is correct.

And as far as the trial goes, the trial on arbitrability, that is correct as well. There are some additional dates that we could propose to the Court and to the other side, based on changes in the scheduling on our side. You know, everyone has agreed that they're available on January 15th, but I'm authorized to say, at least on our side, we could appear for a trial the week of November 13th

or the week of January 8th as well.

THE COURT: And do you take the view that this is a jury trial?

MR. JAY: We do.

THE COURT: So would I have to expect some litigation over that issue in light of what you have heard?

MR. JAY: In light of what I heard, it does sound like it, but we think that our entitlement to a jury is clear in the text of the FAA, and there is a jury demand complaint. But our estimates of how long it would take I think are not far off from each other. Our estimate is three days, factoring in the possibility of a jury trial.

THE COURT: And three days meaning for all sides, including the issues relating to selecting a jury, et cetera?

MR. JAY: Yes.

THE COURT: How about, are folks still over in Korea or is all of that discovery done?

MR. JAY: The depositions that we referred to in the letter briefing before Your Honor, in the ones in Korea.

THE COURT: Those are all completed?

MR. JAY: That's right.

THE COURT: All right. Do you want to talk about the automatic stay issue?

MR. JAY: I would like to. Thank you, Your

Honor. And I prefigured what I was going to say getting into the text of Section 3 and why Congress -- and this is one of the things that makes the FAA unlike something like qualified immunity. It is not a full blown immunity that entitles a defendant to stop everything the moment it is raised, which is true of qualified immunity but it is not true of the FAA, which you see right in the text of Section 3. And we think there is nothing in the FAA that mandates a different rule once an appeal is noticed.

We think that you start with the first principles that, in general, when an interrogatory appeal is noticed, this Court, the District Court retains jurisdiction over the rest of the case. That is clear in the P.I. context from the Third Circuit's decision in the *United States v Price* in which the Court said: It would be error to enter an automatic stay based on the noticing of a P.I. appeal. Yes, it's true in the 1292(b) context, it's true in the 23(f) context, both written right into the statute and the rule that there is no automatic stay.

And we think that that is true even though in theory a P.I. appeal or 1292(b) appeal could result in the end of the case. In other words, the Court of Appeals could reverse and say this case should not go forward at all anymore. The court, in hearing a P.I. appeal, has the authority to hold -- the appellate court has the authority

to hold that the complaint doesn't state a claim and the litigation should end.

But, nevertheless, the fact that that issue is pending on appeal doesn't undermine the District Court's jurisdiction to continue moving the case forward. Only the issue on appeal is taken away from the District Court and transferred to the Court of Appeals.

But no one has asked this Court to reconsider the ruling that is on appeal. That is what the transfer of jurisdiction restricts the Court from doing. That is why there is now an indicative ruling rule in the Civil Rules, Rule 62.1, for when a court really does want to reconsider the ruling that is on appeal over which it has lost jurisdiction, but the rest of the case is still securely here in this court.

We thank that *Moses H. Cone* makes very clear that questions of arbitrability and the merits are easily severable from one another, and there is no reason why litigation of the merits needs to stop just because the defendants have noticed an appeal. And we recognize that one of the questions that this court has retained is an arbitrability question, and we think the same answer holds for the arbitrability question as well.

I think that the best analogy that I can draw is to one of those other contests that I mentioned, the 1292(b)

question. A Court can deny summary judgment and the denial of summary judgment can go up to the Court of Appeals either on a collateral order or a certified 1292(b) order, but that doesn't stop the Court from proceeding toward resolution of the merits because the two questions are different. The question on appeal in that circumstance and the question on appeal here are, as a legal matter, has the movant demonstrated an entitlement to stop the case irrespective of any factual dispute whereas what remains here in the court to resolve is a factual dispute. Those are different questions.

So this court has jurisdiction to retain it, and there is nothing automatic about the fact that this is an arbitration case that changes that. It is true that Congress has created a right to interrogatory appeal in arbitration stay cases, but that is it. That is the extent to which the strong federal policy favoring arbitration plays in here, but there are lots of interrogatory appeals authorized by statute. None of them create automatic rights to stay simply by filing the Notice of Appeal irrespective of the nature of the issues at stake.

There are other privately negotiated rights to avoid litigation. And we have cited the *Digital Equipment* case from the Supreme Court, which was basically a covenant not to sue. That case relies on an earlier Supreme Court

case called *Lauro Lines*, which I think is also quite analogous, which is about a privately negotiated forum selection clause. You are going to have to litigate, but you want to litigate in Italy instead of the United States. The Supreme Court held in both of those cases, those privately negotiated rights not to be in the particular federal court or even in the United States Courts at all are not akin to the immunities that are at stake in cases like qualified immunity, and they don't warrant collateral order appeals at all.

So here we have a Congressionally authorized right to appeal. No one is disputing that. And they can appeal. And if they want a stay pending that appeal, they must justify it according to the standard that applies to every other context. They must satisfy the four part standard for a stay pending appeal.

We think that is why the right resolution to this is to side with courts like the Fifth Circuit, the Ninth Circuit, and the Second Circuit that have concluded that the stay is not automatic in this context.

THE COURT: You cite the Supreme Court case that I also can't pronounce, N-k-e-n I think.

MR. JAY: My recollection, Your Honor, is that it is N-Ken (phonetic).

THE COURT: *Nken*. Let's say *Nken*.

I'm not sure that the holding there can be as broad as at least your papers suggest. There are situations at least where the statute does recreate an automatic stay; isn't that correct?

MR. JAY: Well, there are situations in which -- my friend on the other side has cited the bankruptcy stay, for example. There is no doubt that that is a form of automatic stay, but it is created by statute in a section of the code that is headed Automatic Stay. You know, Congress created no ambiguity about it, but when you are talking about something that lacks that clarity, you are talking about just a right to interrogatory appeal that makes no mention of stays in any way, you read that against the backdrop of ordinary equity practice, which is that a stay is never an entitlement, it is not a matter of right. In order to establish a stay, an extraordinary remedy -- no right to a stay, an extraordinary remedy, the movant must satisfy the usual four factor test.

We think *Nken* stands for that proposition. It is not for the proposition that Congress could never create a right to stay, but that the ordinary rule, the long established rule of equity practice, the rule that was in force at the time Congress adopted the relevant part of the FAA are that stays are equitable, they're matters of discretion, and they're not automatic unless Congress says

otherwise.

THE COURT: Have any of the Circuits that have addressed the automatic stay issue expressly discussed the *Nken* case and what impact it may have?

MR. JAY: They have not. Both the Fourth Circuit, as my friends have pointed out, and also the Fifth Circuit which came out the other way, have come out, decided their appeals after *Nken*. And ultimately we think that even if *Nken* didn't exist, we think that our position would still be meritorious and that you should rule for us based on the background principles that we have cited, but we do think that it is very helpful as a starting point that that is the backdrop against which Congress adopted these statutes that a stay is not a matter of right.

And the Court, quite consciously, set out in roman 4 of its opinion in that case to say, okay, what is the ordinary standard for stays? Not just immigration stays, not just Supreme Court to Court of Appeals stays, but stays in general, precisely because it was deciding that Congress had not displaced the ordinary standard in that case. And it set out to write something perhaps broader than the facts of the case made necessary.

But if you look at the cases cited in part 4 of that opinion, you will see that they include habeas cases, they include civil cases, they include immigration cases.

It is something that is basically crosscutting in appellate practice. And that is why we think it is relevant here.

THE COURT: Now, you have your interpretation of the *Ehleiter* case and whether it is binding or you say it is not binding. Have you found any case or any commentary that interprets the status of Third Circuit law as being what you say as opposed to them joining the majority which is what Dollar Shave argued?

MR. JAY: Right. There are a handful of decisions that upon finding that footnote have used it to tally the Third Circuit with, for example, the Tenth Circuit and the Fourth Circuit, but we think that that it's not right and for reasons I'm happy to go through.

The Third Circuit has a strong rule expressed in its IOB 5.7 that nonprecedential opinions are not precedent. They're not citable as precedent because they're not circulated to the full court before they're being released.

The order in question, the one that granted the stay in *Ehleiter* was plainly nonprecedential, was not published in the F3d. And if my friends on the other side had cited it, everyone would agree that it is not binding.

The footnote is what they point to. But if you look at the operative text of the footnote, the last sentence is really the only thing that is doing any work. And what the last sentence says is: In that order --

meaning in the nonprecedential order that had been released a couple months before. In that order, we expressed -- past tense -- we expressed our agreement with the majority side of the Circuit split.

Now, in the order itself, only one side of the Circuit split was acknowledged, and the Court may well have wanted to put in its published opinion an acknowledgement that there is in fact a Circuit split on this issue so that the bench and the bar would be aware of this and able to flesh it out in the future. It was too late in that case because the Court had already granted the stay, and at that point it was moot. There was no further reason to discuss it and to take sides in the Circuit split.

But the text of the Third Circuit's opinion we think is absolutely plain. It is written in the past tense. It says, in that order, we express our agreement. But the same thing would be true if that had been a prior opinion of the Third Circuit that was designated nonprecedential. If it said, in our prior non-precedential opinion, we expressed our agreement with XYZ. That would not be precedential either.

The Third Circuit has said several times, including in the *Jamison* case that we cite, that it strongly discourages District Courts from relying on unpublished opinions as precedent.

THE COURT: Would you say it is dicta then, the footnote?

MR. JAY: Well, I think that it acknowledges a Circuit conflict, and so to call it dicta suggests that it, even that it picks a side. So either it is dicta or it is purely historical, but either way it is not an operative holding to bind this Court. It is a correct observation that there is a Circuit conflict but it doesn't pick sides in a precedential opinion circulated to the full court. And the full court reading that opinion would not -- (The Court sneezes.) -- bless you, Your Honor. The full court reading that opinion would not have concluded that we are now on record on one side of the split and not the other. I think it is an open question in the Third Circuit for Your Honor to decide.

THE COURT: Now, all that said, I think it is true you haven't found any case or commentator that has said that about that footnote or about that case.

MR. JAY: That is certainly true, but we also haven't found one rejecting it. It simply hasn't been made and considered. There have been a handful of decisions. And we're talking a number that you can count on one hand that look at it and attempt to apply it. And several of them have been in a context that don't need to apply it as a holding. They can assume it is true. So, for example, one

of the decisions decides to ahead and proceed because it certifies the appeal would be frivolous. And you can assume that *Ehleiter* joins one side of the split or not and still reach the same conclusion because frivolous, everybody agrees that frivolous appeals don't stop the District Court from going forward. So I think in that case, for example, it would be dicta.

But, ultimately, we think that the issue is joined in this case about the status of that footnote. And this Court, which is familiar with the Third Circuit's IOBs and its practices, can make that decision. We don't think that it was joined in any of those other Circuits. And certainly the fact that some out-of-Circuit decisions may have to touted it up in trying to count noses on each side of the Circuit split we don't think is really probative at all.

THE COURT: Let's talk about maybe a worst case scenario. Let's say I deny the stay today and you all finish fact discovery, you finish expert discovery, we get to an arbitration trial November, December, January. I say it's not arbitrable. In the meantime, this appeal is going forward and the Third Circuit, lo and behold, says all that was wrong, this is all arbitrable, and then they stop us.

Is that just too bad and those are the risks we all take or is there some way to not be that concerned about

that?

MR. JAY: Right, and I think that the way to not be concerned about that is the same way that this Court applies every time a P.I. or an interrogatory order goes up to the Court of Appeals. There could be wasted effort. If the Court of Appeals, some months later, says you got that wrong, District Court, we are reversing you and this case is over.

But the way to assess that is to, number one, take account of who prevailed in the District Court because the party that didn't prevail, the party that is appealing, bears the burden of showing entitlement to the stay. And, number two, to apply the four part standard which looks at:

Number one, the likelihood of success.

Number two, what is that party going to suffer during the pendency of the appeal, which can include consideration of how long the appeal is going to last. And,

Number three, what is the balance of the equities, including the public interest.

That standard I think is the all purpose answer to the possibility that an interrogatory appeal could result in a reversal that says things that continue to go forward in the District Court should not have, but the other side hasn't attempted to make that showing except in response to Your Honor's questions today. And we think respectfully

that just as the Court found that they had not justified a stay of this action in any of its previous rulings, they haven't shown it just because they have noticed the appeal.

THE COURT: All right. Is there anything else?

MR. JAY: Not from me, Your Honor. Thank you for your time.

THE COURT: Thank you. We'll hear from defendant again.

MR. WIT: Can I still take my five minutes, Your Honor?

THE COURT: Yes.

MR. WIT: Okay. Very, very briefly, and going somewhat in reverse order.

With respect to the *Ehleiter* case, it is not accurate to say that there is only a handful of decisions that have recognized that it's precedent.

It is also inaccurate to say that no one rejected the argument Gillette has made. There are a dozen courts cited in the brief: two Circuits, four District Courts in this Circuit, and six other District Courts cited in the brief that all say that *Ehleiter* is precedent. The Third Circuit has adopted the automatic divestment rule. They wouldn't say that if they didn't think it was true.

THE COURT: Do you know if any of those courts heard an argument that it is not precedential?

MR. WIT: Without looking at all the briefs and all those papers, we don't know that for sure.

THE COURT: Tell me, how could it be precedential? I mean it is simply an order from maybe a motions panel like the one we got today that is really just described in historical fashion later by a merits panel.

MR. WIT: Respectfully, I think we disagree with that characterization, although it is true that the minute order most likely was not circulated to the rest of the Circuit. The final order that had the merits was presumably, as is required to be precedent. And I think that any -- in our view, any reasonable reading of the footnote consistent with a dozen other cases that have looked at that published opinion say that it wasn't just deciding a procedural history. It did that in Section 1 of the opinion.

If you go back and you look at Section 1, that is where they had done a minute order. It is at Page 211 of the opinion. They had no reason to say that again in Section 2, which is the section of the opinion that lays out all of the binding rulings and has an elaborate and lengthy discussion of why it is under the FAA there is an immediate right to interrogatory appeal. That is where the language is that talks about the worst case scenario that I had talked about before. All of that language is in the body of the opinion. This footnote is in that section of the opinion.

And we think that that is the Third Circuit reaching out by a panel saying: By the way, we did this earlier in the case. There is a dispute about this in other Circuits, and we think this is the right rule.

It's in the face of the dozen courts and other commentators that have looked at this issue that we were able to find even for this briefing, it seems to us to be somewhat unreasonable to assume all of them got it wrong and that everything hinges on whether it's a past tense in the last sentence of the opinion when, in fact, it is a true statement. That was in the past tense that they recognized it. That does not mean the minute order doesn't become precedential once they adopt it.

THE COURT: You agree the minute order itself is not precedential?

MR. WIT: Yes.

THE COURT: Why isn't it dicta by the time we get to the precedential opinion?

MR. WIT: Well, in our view, what the Third Circuit was saying was this is our view of how the FAA appeals should proceed, that there is an immediate interlocutory right, that there are concerns about worst case scenario, and that in order to avoid that, based on the cases in *Bradford-Scott* and *Levin* and the majority of the Circuits that have taken up the issue, our view is this should be how these

appeals are handled in the future, and here is our guidance on that issue.

THE COURT: All right.

MR. WIT: With respect to the N-ken (phonetic) or Nik-en (phonetic) case, as the case may be, my friend across the aisle pointed out that no Circuits had discussed that issue in response to Your Honor's question.

It is not that no other Circuits have discussed the issue, including the *Levin* court that adopted the majority rule, or the *Weingarten* court that adopted the minority rule, it is that there are 11 courts that haven't done that. In fact, at least 11 courts, both at the District and the Circuit level that have, since *Nken* came out, issued automatic divestiture decisions, either making it the law in the Fourth Circuit or a District Court making it the law in other Circuits.

Indeed, if you look at the language that Gillette quotes from *Nken* itself is merely a quote to the *Virginia Railroad* case from 1926. All the Supreme Court was doing was referring back to long-standing precedent on discretionary stays and restating the conclusion that it made some 80 years before. It was not announcing some new rule that would impact the Circuit split, which is not mentioned anywhere in that opinion, neither is the FAA.

As we note in our briefing in the *Shalala* case,

which is easier to pronounce, the Supreme Court does not subsequent you and is happy to overturn its decisions. It just simply doesn't work that way. We think that that, especially in light of the 11 courts since then that haven't even mentioned ***Nken***, should be conclusive of the issue whether that court somehow abrogated all of these other decisions in courts across the country.

The last thing, since I know my time is limited -- actually two more things -- is with respect to counsel's arguments, both with regard to 1292(b) as well as talking about the collateral order type cases and sovereign quality immunity as well as double jeopardy, those arguments all follow pretty strictly to the letter the minority view of the Circuit cases that were cited in the papers. They're simply making that argument.

We're on the other side. We're making the argument it is in the majority. Even if this Court decides that ***Ehleiter*** is not precedential, the Court is perfectly free and able to make the determination that in this case there should be a stay because of the reasoning that has been adopted, it has been discussed at length. In our view, the minority view is just not persuasive because it takes an overly narrow view of ***Griggs*** in addition to an overly narrow view of ***Moses H. Cone*** and ignores the multiplicity of cases that come out the other way in analyzing all these factors.

Lastly, on the 1292(b) argument, in referring to the fact that the FAA doesn't explicitly talk about an interim stay, unlike in the bankruptcy context, for example, of course that is true. This is a judge-made stay and the majority of Circuits do consider the issue. It is not explicitly in the statute. However, that doesn't change the reasoning. Nor does it change the fact that the *Digital Equipment* case, which counsel referred to, which I referred to in my opinion, explicitly talks about in the context of collateral orders, the fact that Congress had elevated recently, at the time that opinion was issued, the right to an immediate appeal under the FAA. And we think that that is dispositive here. That that case really doesn't help Gillette in any way.

The last thing that I would point out and something which I confess I'm not entirely sure about is that there was at some point additional notices of deposition by Gillette for additional Korean witnesses which I believe have not yet been resolved. If I'm mistaken and they have withdrawn those notices, then perhaps that is a moot issue, but just to make a fulsome record there. It is entirely possible with me, I'll be going back to Seoul.

Thank you, Your Honor.

THE COURT: Thank you. All right. I need to give this some thought. I don't know whether I will be able

to given you a decision today or not but for sure you are free until 4:45. I will come back in as close to 4:45 as I can to say something, but I don't know what it will be. So I will see you then.

(Brief recess taken.)

* * *

(Proceedings reconvened after recess.)

THE COURT: Have a seat.

Is there anything to be added from defendants?

MR. WIT: No, Your Honor. We have spoken our piece in addition to the papers.

THE COURT: Is there anything further from plaintiff?

MR. JAY: No, Your Honor.

THE COURT: All right. Well, I'm going to give you my decision. I should say I pretty much always wish that I had more time but I rarely do have more time, and I just think the nature of the dispute that you have all put in front of me and the posture of the case, including the Third Circuit decision today, and the truly excellent argument from both sides today, really all suggests that I should give you the best decision I can but to do it today, and that is what I have decided to do.

So having reviewed everything before coming in and had a good discussion with you all on the motion, which

is the defendants' motion to recognize the automatic stay pending appeal, my decision is to deny that motion.

The Court is simply not persuaded that it has been deprived of jurisdiction or that the proceedings in this Court were automatically stayed upon the defendants' filing of a Notice of Appeal from this Court's denial of their request for a stay, all of which arose from the Court's regarding arbitrability.

Ehleiter -- I'll try to consistently pronounce it -- the Third Circuit's decision, in this Court's view is simply not a binding precedential decision on this issue of law. The Third Circuit resolved in that case the question of an automatic stay undisputedly in a minute order that was not circulated to the entire Third Circuit and which is, itself, that is, the minute order, undisputedly not a precedential opinion. When the *Ehleiter* merits panel later issued a precedential merits opinion, which discusses the minute order, I don't read that later opinion as changing the nonprecedential status of the earlier minute order, and I don't further read that precedential opinion as otherwise deciding in a binding precedential manner the holding of the Third Circuit on this issue.

Although Gillette can cite no authority articulating this interpretation of *Ehleiter*, and defendants are correct that other courts, including District Courts

within this Circuit, have interpreted *Ehleiter* as binding precedent, and they specifically interpreted it as binding precedent of the Third Circuit saying it is joining the majority view of this issue, I just simply am not persuaded by those other courts or those other authorities.

It is also not clear to me that Gillette's arguments about the legal status of *Ehleiter* were made to any of those other courts or were recognized by any of the commentators that interpreted *Ehleiter* in a different way than this Court does.

Now, the Court's view on this point is further supported by the Third Circuit's order today denying defendants' request that the Third Circuit stay this Court's proceedings for some or all of the time that defendants' current appeal is pending in the Third Circuit. It seems more likely that if the motions panel thought that *Ehleiter* was binding precedent on the issue of the automatic stay, it would have granted the request to stay these proceedings here in District Court.

If the stay is, as defendants say, automatic under *Ehleiter* and I lack jurisdiction to proceed in this case, I would have expected the stay request that the Third Circuit had been granted or at least not to have been denied, and not to have been denied today in particular. And the fact that the order references the motions panel

awareness of today's hearing in this court, I would have thought made it more likely that they would have granted the stay to stop today's proceeding had the two judges reviewing that motion thought that in ***Ehleiter,*** the Third Circuit as a whole already in a binding precedential opinion decided that an automatic stay exists in these circumstances.

So that is not what they did and, therefore, I reach the conclusions that I do, and I deny the request to recognize the automatic stay pending appeal because I don't think there is an automatic stay pending the appeal.

Now, that still does leave for me the issue of a discretionary stay, and I am going to address that. I am aware that the defendants have not, at least before today, in response to my questioning, asked for a discretionary stay. They have not asked for a discretionary stay before today. That, of course, that decision not to ask for a discretionary stay doesn't limit the Court's authority to grant one. It doesn't limit the Court's authority to control its own docket or to balance the equities. And, anyway, I think the Third Circuit's decision today denying their request for a stay from the Third Circuit is a new fact, a new factor that even if one should have held against them their failure to request a stay before today might give them yet another chance to ask for one.

All that said, I think there is every reason

that I should consider a discretionary stay, and I have considered it. The factors that have to be applied in considering a request for discretionary stay are undisputed. And having considered them, I conclude that they do not weigh in favor of a stay, so I will not be granting the discretionary stay either.

The first factor, and really the one that is dispositive here, is the likelihood of success on appeal.

It is the defendants' burden to show that in the currently pending appeal, they are likely to succeed. And they have failed to do that.

I say that focused on how narrow and particular the issues are that are the subject of the current appeal. They are, as I understand it, basically twofold:

First, whether this Court or instead the arbitration panel should decide the arbitration or arbitrability issue. And,

Second, whether it is this Court that is to decide the arbitrability issue, did we apply the correct standard for deciding it, which is something akin to a summary judgment standard. And in applying that standard, relatedly, did we perhaps err in finding genuine disputes of material fact?

That is all that I understand the appeal is about, those issues I have just issued. And I'm just not

persuaded that defendants are likely to prevail on appeal on any of those issues.

Now, I do continue to think there is a real chance that defendants will prevail at the forthcoming trial on the arbitration issue. That is, I think there is some likelihood that the defendants will ultimately show that the parties' disputes should be in arbitration. And I recognize that that is the decision the arbitrators have reached already, but those are not the issues that are currently before the Third Circuit in the current appeal. So even if I say that defendants have shown they're likely to succeed in showing arbitrability, that does not help them meet their burden on the current request for a stay pending appeal.

In fact, I think not only does all of that not help the defendants, I think it hurts their request for a stay today, because if I do think it is likely defendants are, after the trial on arbitrability, to prevail in showing that this case should be arbitrated, then it seems to me I should be trying, as I am trying, to get to that trial as quickly as I can so we can find out if it's true that the case should be in arbitration and a stay would, among other things, delay the time in which we would otherwise get to the arbitration trial.

So having found that the defendants haven't met their burden on the first requirement for discretionary

stay, it follows the Court must deny that stay.

I will briefly touch on the other factors.

Irreparable harm to the defendants from the lack of a stay and harm to Gillette were I to enter a stay.

I recognize there is harm on both sides here and there is risks to both sides no matter how I choose to proceed. It's possible given that I'm denying the stay that defendants may incur millions of dollars of legal fees and lose some portion of what they bargained for in terms of arbitrability. That may turn out to be the case if in fact this all should have been arbitrated from the beginning or the Third Circuit eventually says that. That is a real risk.

On the other hand, there are risks to Gillette if I were to stay the case and delay getting to trial and delay them getting their day potentially to prove that they're suffering every day in the market from unfair competition based on infringement of their patent.

I need not decide which of these is the greater harm or the greater risk or what might constitute irreparable harm versus reparable harm. The point is there are risks and harms on both sides, substantial on both sides. I can't eliminate all of it by any stretch. And the defendants have failed to meet their burden on the first factor, so I don't need to make any decision on the rest of it.

Similarly, on public interest.

There is important public interest on both sides. I think that almost goes without saying. The public has an interest in the patent system and enforcing patent rights. They have an interest in enforcing arbitration agreements and, of course, we talked about promoting arbitration. I don't need to again here unpack which interest is greater under the circumstances here. Either way, the defendants have failed to meet their burden.

So I will not be entering a stay. I will issue, probably tomorrow at this point, a very short oral order that simply says the request for a stay is denied.

I will also, and hereby do, order a joint status report. I would like it by Friday. I want you to address, among anything else you want to tell me, what is the parties' availability for a trial on the arbitration issue any time between October and the end of January. Give me again your requested amount of time. Essentially I'm hearing two to three days, and if that is what you are requesting, that's fine, but put something in writing as to what that request is.

Also, provide me a proposal for how and when I should resolve whether this trial is a bench trial or a jury trial. I'm guessing it's unavoidable we'll need some at least limited briefing on that question.

And I also want a further update on what

discovery disputes are ripe and if you are continuing to request through the discovery matters procedure that I set up a letter briefing and teleconference schedule.

That's it for me. Are there any questions about any of that, first, from defendants?

MR. WIT: No, Your Honor. Thank you, Your Honor.

THE COURT: And from plaintiff?

MR. JAY: No, Your Honor. Thank you.

THE COURT: Thank you all very much. We will be in recess.

(Oral argument hearing ends at 5:08 p.m.)

I hereby certify the foregoing is a true and accurate transcript from my stenographic notes in the proceeding.

/s/ Brian P. Gaffigan
Official Court Reporter
U.S. District Court